

January 26, 2018

The Honorable Ralph S. Northam
Governor
Commonwealth of Virginia
Patrick Henry Building, 3rd floor
Richmond, VA 23219

Re: December 2017 Lottery Results

Dear Governor Northam:

I am pleased to provide our report of monthly activities and financial update for the month of December 2017, as required in §58.1-4006 of the *Code of Virginia*.

December sales totaled \$194.9 million, up \$18.2 million (+10.3%) compared to the same month last year. Net income for the month totaled \$48.8 million, an increase of \$4.6 million (+10.4%) compared to last December. For the year to date, both sales and profits are up about 7%. Strong sales and profits during December were supported by both national games' jackpot rolls, as well as holiday sales for scratcher products. Sales and profits are both trending very close to the updated forecast.

As part of the statewide revenue forecast process, the Lottery updated the forecast of sales and profits for Fiscal Year 2018, and for the 2018-2020 biennium. The revised estimate, including the \$11.8 million residual transfer of profits made after the Auditor of Public Accounts' certification of FY2017 results, were included in the Governor's introduced budget amendments in December. In addition, the Lottery made its first transfer of estimated fiscal year 2018 profits to the Lottery Proceeds Fund in December, as required by the Appropriation Act. Transfers occur monthly for the remainder of the fiscal year.

Please let me know if you have any questions or if you would like more information. I look forward to serving in your Administration and continuing the Lottery's important mission of generating profits for local public education.

Very truly yours,

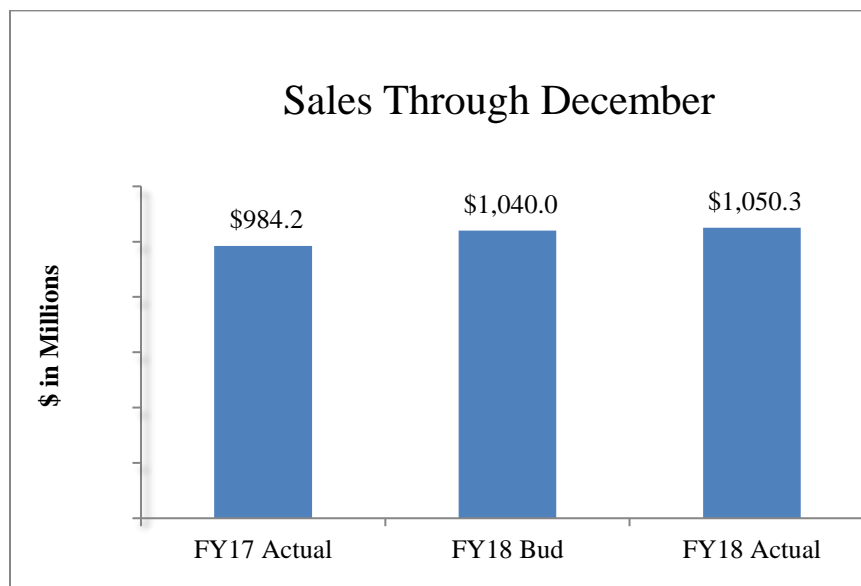
Kevin Hall

- c: The Honorable Thomas K. Norment, Jr., Co-Chairman, Senate Finance Committee
- The Honorable Emmett W. Hanger, Jr., Co-Chairman, Senate Finance Committee
- The Honorable S. Chris Jones, Chairman, House Appropriations Committee
- The Honorable R. Lee Ware, Jr., Chairman, House Finance Committee
- The Honorable Clark Mercer, Chief of Staff, Office of the Governor
- The Honorable Aubrey Layne, Secretary of Finance
- Daniel S. Timberlake, Director, Department of Planning & Budget
- David A. Von Moll, State Comptroller
- April Kees, Interim Co-Director, Senate Finance Committee
- Jason Powell, Interim Co-Director, Senate Finance Committee
- Robert P. Vaughn, Staff Director, House Appropriations Committee
- Ferhan Hamid, Chairman, Virginia Lottery Board

VIRGINIA LOTTERY
Report to the Governor and
Selected Members of
the General Assembly
As of December 31, 2017

Sales

Lottery sales for the fiscal year totaled \$1,050.3 million through December. This represents an increase of \$66.2 million (+6.7%) compared to the prior year. Scratcher sales of \$578.2 million were \$22.4 million (+4.0%) higher than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) totaled \$311.6 million, up \$19.5 million (+6.7%) from last year. Sales in the jackpot games category (Mega Millions, Powerball, Cash 4 Life and Bank a Million) totaled \$138.0 million, an increase of \$20.4 million (+17.4%) compared to last year because of higher advertised jackpots during the period. Sales of Print n' Play games, a category that represents about 2% of total sales, totaled \$22.5 million, \$3.8 million (+20.4%) higher than last year.



Expenses

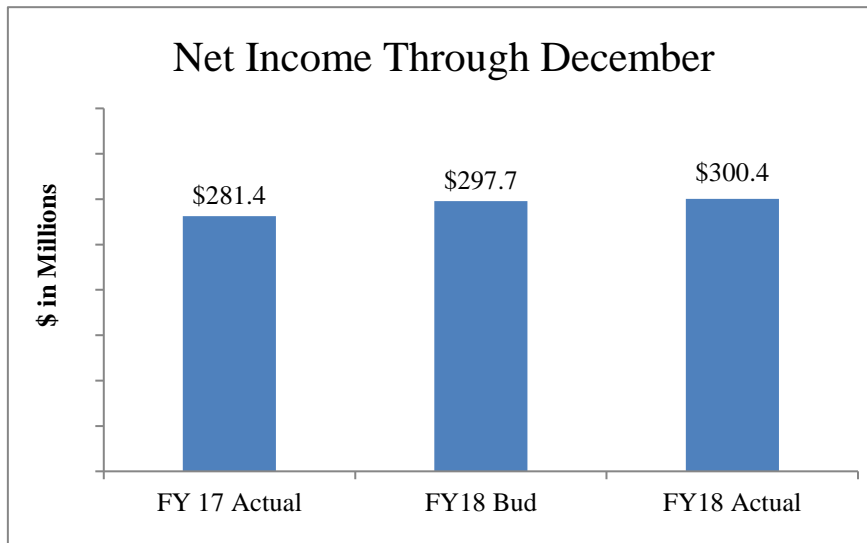
The overall prize expense rate (prizes as a percent of sales) for the year through December was 60.6%, slightly lower than last year's rate of 60.8%. The scratcher prize rate of 70.0% was slightly higher than last year's rate of 69.9%. The overall daily games prize rate of 45.6% was lower than last year's rate of 47.3%, and significantly lower than the average 50% payout rate expected. The jackpot games prize expense rate of 53.5% was higher than last year's rate of 50.4%. It is important to note that significant fluctuations in prize expense rates occur during the short term, especially for daily games that have fixed prizes; however, overall long-term prize rates reflect outcomes more in line with statistical expectations.

Retailers earned \$5.1 million more than last year, for a total \$60.2 million in earnings. Overall, retailers earned 5.7% of Lottery sales in commissions and incentives during the fiscal year, slightly higher than the usual 5.6% due to the timing of some incentive programs.

Administrative operating costs, including gaming, ticket printing and distribution expenses, were \$4.3 million higher than the same period last year – expected with higher sales – but remain low at 5.1% of sales.

Net Income

Due to higher sales, profits totaled \$300.4 million through December, an increase of \$18.9 million (+6.8%) compared to the same period last year.



CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

For the 2018 fiscal year to date, the Lottery made debt setoff collection payments to the Department of Taxation totaling \$874,914. Also, unclaimed prizes totaling \$7,383,030 were transferred to the Literary Fund so far this year.

MEETINGS

The Lottery Board held a regular business meeting in Richmond on January 10, 2018, and elected officers for the calendar year. Mr. Ferhan Hamid will serve as Chair of the Board, and Mr. Scott Price will serve as Vice-Chair. The next meeting of the Board will be in Richmond, on April 11, 2018.